

EXXON COMPANY, U.S.A.

POST OFFICE BOX 2024 • HOUSTON, TEXAS 77252-2024

CONTROLLER'S DEPARTMENT
ACCOUNTING SERVICES

REBECCA T. LANGLEY
OWNERSHIP MANAGER

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Office of Management and Budget
Office of Information and Regulatory Affairs
Attention: David Rostker
(OMB Control Number 1010-0073)
Washington, D.C. 20503
725 17th Street, N.W.
Washington, DC 20503

Royalty-in-Kind Pilot Program-Directed Third
Party Communications Between Operators and
Purchasers of Federal Royalty Oil and Gas

To Whom It May Concern:

Exxon Company, U.S.A., a division of Exxon Corporation "Exxon", appreciates the opportunity to comment to the Office of Management and Budget "OMB" regarding third party communications between operators and the purchasers of Federal royalty oil and gas in Royalty-in-Kind "RIK" pilot projects. The notice requesting these comments appeared in the July 28, 1999 Federal Register "Notice". We have sent an additional copy of these comments to the Minerals Management Service "MMS" that requested this type of communication.

In general, Exxon believes that communication is essential to the RIK process. The comments provided herein are primarily directed towards gas RIK. The process proposed seems inconsistent with the logistics of scheduling gas for transportation and gas industry practices. There are significant differences in the oil market and the gas market that are not recognized in the request to the OMB. Most simply, the oil market tends to be a 30-day market with few intra-month changes. The gas market includes substantial daily, and even intra-day, activity. This may require much more communications with the operator to effect RIK deliveries.

Delivery of gas functions successfully today with Operator-to-Producer communication. Some of the reasons for the way the gas industry functions are in the best interests of the producer. The introduction of the MMS RIK program does not warrant a significant change in practice of Operator-to-Producer communication.

To illustrate Exxon's concerns with the process, we have included quotes from the Notice followed by specific comments. We believe that these illustrate that (1) communication between the Operator and Third Party Purchaser are unnecessary for

the MMS to perform its RIK obligations and may in fact hamper the MMS in performing these obligations, (2) the estimate of the burden of the proposed collection of information is too low, and (3) the burden on respondents is high.

Notice: "Collection of RIK requires communication between the operators of a lease and the purchaser of RIK from that lease to assure accurate and timely delivery of MMS' royalty share of production volumes."

Comment: The above statement is inaccurate and inconsistent with gas industry practices. As documented in the COPAS White Paper on Operator and Producer Roles and Responsibilities, the Operator is responsible for initiating the communication of two pieces of information: (1) the estimated gas available for sale (GAFS) to the Producer prior to the start of the month, and (2) confirmation of nominations with the Pipeline prior to actual gas flow. The information used to confirm pipeline confirmations is based on industry standards developed by the Gas Industry Standards Board which have been adopted by the FERC and incorporated into all interstate pipeline tariffs. As per those standards the relevant information required to confirm nominations is either the shipping contract number or the shipping entity. That information, as per the COPAS White Paper, is provided by the Producer (i.e., seller or MMS) to the Operator.

In industry practice, there is no requirement of direct communication between the operator and purchasers of another party's gas. The key information provided by Producers to the Operator is shipping information. It is important to recognize that the shipper may be different than a Producer's purchaser (i.e., if the gas is "flipped" to another party(ies) by the first purchaser prior to transportation).

Another point is that Operators are not going to be familiar with the seller's (MMS) contract with a purchaser. If a cut/increase needs to be made, the Operator will not have knowledge (nor should they) of the terms of the sales contract to know which purchaser should be cut/increased or if there is a maximum cut/increase volume for particular purchaser(s). Making these decisions themselves should be in the best interests of the MMS as a producer.

Notice: "The types of communication and supporting data MMS will require operators to use in setting up the monthly delivery of RIK to the purchaser are standard business practices in the oil and gas industry."

Comment: This statement is inaccurate. The information the MMS describes is communicated between the Operator and the Producer, not between the Operator and the Purchaser. The inaccuracy is not in the "what" is communicated, but is in "to whom" the information is communicated.

Notice: "Failure of lessees/operators and purchasers to timely communicate volumetric, delivery, and transportation information concerning the MMS' RIK volumes will result in storage costs being incurred due to lack of pipeline space being reserved to move MMS' royalty production."

Comment: This statement (while at once being overstated and oversimplified) is true, but the "remedy" is not to require Operators to communicate with the MMS' purchaser(s). Industry practices recognize the problems encountered if information regarding volumes is not communicated. The practice is for the Operator to communicate to Producers who communicate to Purchasers who communicate to Shippers (if different) who communicate to Pipelines who communicate with Operators. The existing nomination/confirmation process is what ensures that all parties understand the expected flow of gas. It also affords the Producer to make the decisions best for the Federal royalty. The MMS seems to be attempting to resolve a problem that is already addressed by long-standing and reliable industry practices.

Notice: "Frequency of Response: Monthly."

Comment: This statement is inaccurate. In order to minimize transportation and producer imbalances, it is necessary to change nominations when there is a change in the volume of gas being produced at a point. At large production points (where the MMS will be taking their RIK) nominations will probably need to be changed about once per week.

Notice: "We estimate no additional record-keeping burden."

Comment: This statement is inaccurate. Operators do not now have to maintain a record of the individual Producer's purchasers. Records would have to be maintained on information such as the purchaser's name, contact name, phone number, fax number and special provisions regarding the maximum volume fluctuation they are obligated to handle. Files of communication-related documents (fax confirmations, call notes) would also have to be maintained to resolve potential disputes. Therefore, regarding the burden, the estimate of 2 minutes per response once a month is low.

A more realistic (and conservative) incremental time estimate would be as follows:

-- First-of-month communication of volumes to Purchasers: 5 minutes per purchaser. This is a procedural conundrum, because if there are multiple purchasers, the Operator would not know the volume for each until the Producer (seller - MMS) tells the Operator. By then, it would be unnecessary to communicate with the Purchasers.

-- Intra-month changes in volumes: 10 minutes per purchaser. Extra time needed to be sure of the timing and exact volume change required. This presumes the Operator knows which Purchaser to change, which is counter to industry practice.

-- Providing balancing information and volume reconciliation communications: 15 minutes per month.

Total per point would be 60 minutes per purchaser per month (assuming 4 intra-month changes). Also, there may be more than one purchaser per month...2 would be 120 minutes, 3 would be 180 minutes, etc.

The overriding factor is that the communication with a purchaser or purchasers does not alleviate the need for the MMS to monitor its production and its gas sales contracts. In fact, with more parties involved in the process, it will add to the burden of the MMS and the Operator.

We therefore suggest that all communications be between the Lessor or Operator and the Lessor (MMS). If the MMS prefers not to handle the gas scheduling process, we suggest that they designate someone to act on their behalf as they have done in some of the pilot situations. The longer term relationship with a party designated to perform on behalf of the MMS seems to work very efficiently without the immense burden of multiple parties being involved in the process.

Again, thank you for the opportunity to provide input into this process. If you have any questions regarding our comments, please contact Sara Tays at (713) 680-7730.

Libena D. Langley

Copies:

Minerals Management Service
Royalty Management Program
Rules and Publications Staff
Building 85, Room A-613
Denver Federal Center
Denver, Colorado 80225
E:MAIL - RMP.comments@mms.gov

Mr. Bonn Macy
Special Assistant to the Director
Minerals Management Service
FAX (202) 208-3918
Email Bonn.Macy@mms.gov

Mr. Gregory W. Smith
Minerals Management Service
FAX (303)275-7124
Email gregory.w.smith@mms.gov